

RECEIVED  
DATE 11-6-06

**COUNTRY COTTAGE, INC.**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**



**KEMP BURDICK**  
**KEMP BURDICK HINTON & HALL L.C.**  
**CPA'S & ADVISORS**

## Table of Contents

<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Financial Statements:</b>	
Statement of Financial Position .....	2
Statement of Activities .....	4
Statement of Cash Flows .....	5
Notes to the Financial Statements.....	7
<b>Supplementary Information:</b>	
Statement of Functional Expenses.....	13
<b>State Reports:</b>	
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standard</i> .....	14
<b>Findings and Recommendations .....</b>	<b>16</b>



**KEMP BURDICK**  
KEMP BURDICK HINTON & HALL L.C.  
**CPA'S & ADVISORS**

**Independent Auditors' Report**

The Board of Directors  
Country Cottage, Inc.  
St. George, Utah

**MEMBERS:**  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the accompanying statement of financial position of Country Cottage, Inc. (a nonprofit organization) as of December 31, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Country Cottage, Inc. as of December 31, 2005, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 7, 2006 on our consideration of Country Cottage, Inc.'s internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in accessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the statements of financial position, activities and cash flows. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kemp, Burdick, Hinton & Hall, L.C.*  
KEMP, BURDICK, HINTON & HALL, L.C.  
August 7, 2006

**Country Cottage, Inc.**  
**Statement of Financial Position**  
**December 31, 2005**

---

**ASSETS**

**Current assets**

Cash	\$ 27,491
Accounts receivable	54,500
Deposits	100
Prepaid expenses	<u>163</u>
Total current assets	<u>82,254</u>

**Property and equipment**

Office equipment	12,267
Furniture and fixtures	4,031
Vehicles	57,311
Less: accumulated depreciation	<u>(42,146)</u>
Total property and equipment	<u>31,463</u>
Total assets	<u><u>\$ 113,717</u></u>

(Continued on Page 3)

The accompanying notes are an integral part of the financial statements

**Country Cottage, Inc.**  
**Statement of Financial Position, Continued**  
**December 31, 2005**

---

**LIABILITIES AND NET ASSETS**

**Current liabilities**

Accounts payable	\$ 434
Accrued liabilities	6,153
US Bank - revolving credit line	50,314
Current portion of long-term debt	<u>7,040</u>
Total current liabilities	<u>63,941</u>

**Long-term liabilities**

Notes payable, net of current portion	<u>23,476</u>
Total long-term liabilities	<u>23,476</u>
Total liabilities	<u>87,417</u>

**Net assets**

Unrestricted	26,300
Temporarily restricted	-
Permanently restricted	<u>-</u>
Total net assets	<u>26,300</u>
Total liabilities and net assets	<u><u>\$ 113,717</u></u>

The accompanying notes are an integral part of the financial statements

**Country Cottage, Inc.**  
**Statement of Activities**  
**For the Year Ended December 31, 2005**

---

	<u>Unrestricted Operations</u>
<b>Revenues, gains, and other support</b>	
Contract income	\$ 553,936
Contributions and other	19,849
Interest income	53
Net gain on disposal of fixed assets	<u>12,893</u>
Total revenue, gains, and other support	<u>586,731</u>
<b>Expenses</b>	
Program A - Foster care	478,825
Management and general	65,026
Fund-raising	<u>4,767</u>
Total expenses	<u>548,618</u>
<b>Change in net assets</b>	<u>38,113</u>
Net assets at beginning of year	<u>(11,813)</u>
Net assets at end of year	<u><u>\$ 26,300</u></u>

The accompanying notes are an integral part of the financial statements

**Country Cottage, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2005**

---

**Cash flows from operating activities:**

Cash received from grants and contracts	\$ 559,781
Cash received from contributions and other	19,849
Cash received from interest	53
Cash paid for foster care expenses	(478,825)
Cash paid for management and general expenses	(65,319)
Cash paid for fund-raising expenses	<u>(4,767)</u>

Net cash provided by operating activities	<u>30,772</u>
---	---------------

**Cash flows from financing activities:**

Purchase of fixed assets	<u>(2,000)</u>
--------------------------	----------------

Net cash flows from investing activities	<u>(2,000)</u>
--	----------------

**Cash flows from financing activities:**

Principal payments on long-term debt	<u>(12,058)</u>
--------------------------------------	-----------------

Net cash used by financing activities	<u>(12,058)</u>
---------------------------------------	-----------------

Net decrease in cash and cash equivalents	<u>16,714</u>
---	---------------

Cash and cash equivalents, beginning of year	<u>10,777</u>
--	---------------

Cash and cash equivalents, end of year	<u><u>\$ 27,491</u></u>
--	-------------------------

The accompanying notes are an integral part of the financial statements

**Country Cottage, Inc.**  
**Statement of Cash Flows, Continued**  
**For the Year Ended December 31, 2005**

---

**Reconciliation of change in net assets to net cash provided by operating activities:**

Change in net assets	\$ 38,113
Adjustments needed to reconcile change in net assets to net cash provided by operating	
Depreciation/Amortization	12,209
Net gain on disposal of fixed assets	(12,893)
Changes in operating assets and liabilities:	
(Increase)/Decrease in receivables	5,845
Increase/(Decrease) in accrued liabilities	179
Increase/(Decrease) in lines of credit	<u>(12,681)</u>
Net cash provided by operating activities	<u>\$ 30,772</u>

**Supplemental Schedule of Interest Paid**

Interest paid on long-term debt	\$ 2,865
---------------------------------	----------

**Supplemental Schedule of Non-cash Financing and Investing Activities**

Toyota Sequoia sale and payoff of debt	\$ 24,535
--	-----------

The accompanying notes are an integral part of the financial statements



**Country Cottage, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2004**

---

**NOTE 1.      Summary of Significant Accounting Policies**

---

Country Cottage, Inc is a non-profit organization that provides foster care services to youth referred by the Utah State Department of Human Services.

The changes in net assets and financial position are reported under the accrual method of accounting.

Description of Program

The program provides quality foster care services, treatment, necessities, and housing to children/youth. The program ensures that children are moved into permanent homes as soon as possible and that they receive effective support services to aid them in the transition and help them develop a feeling of personal self-worth. Country Cottage, Inc. is supported mainly by revenues from its contracts with the State; however, it also generates revenues from fund raising activities and contributions from private individuals.

Contributions

In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable arise from billings on contracts with the Utah State Department of Human Services. An allowance for doubtful accounts is not considered necessary.

Inventory

The Organization maintains inventories of operating and office supplies which are not material to and not recorded in the financial statements.

**Country Cottage, Inc.**  
**Notes to the Financial Statements**  
**December 31, 2004**

---

**NOTE 1.      Summary of Significant Accounting Policies (Continued)**

---

Functional Allocation of Expenses

The costs of providing the foster care program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and general and administrative expenses.

Provision for Income Tax

The Organization is organized as a nonprofit corporation exempted from Utah tax under the Utah Nonprofit Corporation and Cooperative Association Act. The Company is exempt from Federal income tax under Internal Revenue Service Code Section 501(c)(3).

---

**NOTE 2.      Contractual Agreements and Concentration of Credit Risk**

---

The Organization contracted with the Utah State Department of Human Services under Grant Contract numbers 399211 and 299977. Total revenue earned for the period January 1, 2005 to December 31, 2005 under these contracts was \$553,936. The revenue from the State of Utah comprised all of the contract revenue for the year ended December 31, 2005 and 94.4% of total revenue.

---

**NOTE 3.      Cash**

---

The Organization's cash and cash equivalents are considered to be cash-on-hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition for purposes of this note and the statement of cash flows.

Cash in bank	<u>\$27,491</u>
Total	<u>\$27,491</u>

Deposits with financial institutions are insured by FDIC up to \$100,000 per financial institution. The carrying amount of the Organization's demand deposits at December 31, 2005 was \$27,491 and the bank balance was \$35,824.

**COUNTRY COTTAGE, INC.**  
**Notes to the Financial Statements**  
**December 31, 2004**

---

**NOTE 4.      Property and Equipment**

---

Fixed assets are carried at cost if purchased or fair market value if contributed. Depreciation is computed using the straight-line method over estimated useful lives of 5 to 40 years. Depreciation expense for the year ended December 31, 2005 was \$12,209.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Also major outlays for capital assets and improvements are capitalized when purchased or as construction projects are completed.

The following table summarizes the changes to the fixed assets during the year ended December 31, 2005:

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Office Equipment	\$ 17,323	\$ -	\$ 5,056	\$ 12,267
Furniture & Fixtures	5,236	-	1,205	4,031
Vehicles	98,726	39,191	80,606	57,311
Total	<u>\$ 121,285</u>	<u>\$ 39,191</u>	<u>\$ 86,867</u>	<u>\$ 73,609</u>

**COUNTRY COTTAGE, INC.**  
**Notes to the Financial Statements**  
**December 31, 2004**

**NOTE 5. Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2005:

	<u>December 31,</u> <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31,</u> <u>2005</u>
<u>Vehicles</u>				
N/P Chase (Toyota Sequoia)	\$ 29,918	\$ -	\$ 29,918	\$ -
N/P Chase (Saturn)	-	14,203	6,000	8,203
N/P Deseret First Credit Union	-	22,988	675	22,313
 Total Long-Term Debt	 <u>\$ 29,918</u>	 <u>\$ 37,191</u>	 <u>\$ 36,593</u>	 <u>\$ 30,516</u>

Long-term debt consists of the following:

<u>Notes Payable</u>	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
0% note payable to Chase, payable in monthly installments of \$237, due October 10, 2008, secured by 2004 Saturn Ion	\$ 2,841	\$ 5,362	\$ 8,203
5% note payable to Deseret First Credit Union, payable in monthly installments of \$435, including interest, due September 1, 2010, secured by 2006 Volkswagen Jetta	4,199	18,114	22,313
	<u>\$ 7,040</u>	<u>\$ 23,476</u>	<u>\$ 30,516</u>

**COUNTRY COTTAGE, INC.**  
**Notes to the Financial Statements**  
**December 31, 2004**

---

**NOTE 5. Long-Term Debt, Continued**

---

The annual debt service requirements to amortize notes payable outstanding at December 31, 2004, including interest of \$2,840 are as follows:

Year Ending December 31,	Chase (Saturn)	Deseret First Credit Union	Total
2006	\$ 2,841	\$ 5,220	\$ 8,061
2007	2,841	5,220	\$ 8,061
2008	2,521	5,220	\$ 7,741
2009	-	5,220	\$ 5,220
2010	-	4,273	\$ 4,273
Total	<u>\$ 8,203</u>	<u>\$ 25,153</u>	<u>\$ 33,356</u>

**SUPPLEMENTARY INFORMATION**

**Country Cottage, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2004**

<u>Expense category</u>	<u>Program A Foster Care</u>	<u>Management &amp; General</u>	<u>Fund- raising</u>	<u>Total</u>
Advertising	\$ -	\$ 98	\$ -	\$ 98
Auto expense	16,818	-	-	16,818
Bank charges	-	176	-	176
Depreciation	10,011	2,198	-	12,209
Dues and subscriptions	-	107	-	107
Employee benefits	4,767	11,124	-	15,891
Foster care provider	222,529	-	-	222,529
Insurance	12,162	-	-	12,162
Interest	-	2,865	-	2,865
Legal and accounting	-	8,534	-	8,534
Licenses and fees	-	988	4,767	5,755
Mental health expense	70,330	-	-	70,330
Office expense	-	6,646	-	6,646
Payroll taxes	5,305	1,410	-	6,715
Postage and freight	-	1,517	-	1,517
Rent	7,200	-	-	7,200
Repairs and maintenance	-	113	-	113
Supplies	-	92	-	92
Telephone	4,038	1,010	-	5,048
Tracker expense	42,737	-	-	42,737
Travel and transportation	18,245	-	-	18,245
Wages and salaries	50,192	28,148	-	78,340
Youth allowances	14,491	-	-	14,491
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total expenses	<u>\$ 478,825</u>	<u>\$ 65,026</u>	<u>\$ 4,767</u>	<u>\$ 548,618</u>



# KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

## CPA'S & ADVISORS

**Independent Auditor's Report on Compliance  
and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

The Board of Directors  
Country Cottage, Inc.  
St. George, Utah

**MEMBERS:**

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the accompanying statement of financial position of Country Cottage, Inc. (a non-profit organization), as of December 31, 2005, and the related statements of activities and cash flows for the year then ended and have issued our report thereon dated August 7, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Country Cottage Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Country Cottage Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Country Cottage Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as item 05-1.

A material weakness is a reportable condition in which the design or operations of one or more of the internal control components does not reduce to a relative low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their



assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the board of directors, management, and various federal and state agencies. However, this report is a matter of public record and its distribution is not limited.

*Kemp, Burdick, Hinton & Hall, L.C.*

KEMP, BURDICK, HINTON & HALL, L.C.

August 7, 2006



**KEMP BURDICK**

KEMP BURDICK HINTON & HALL L.C.

**CPA'S & ADVISORS**

## Findings and Recommendations

Board of Directors  
Country Cottage, Inc.  
St. George, Utah

Ladies and Gentlemen:

### MEMBERS:

KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
ROBERT S. COX  
BRENT R. HALL  
KENNETH A. HINTON  
GREGORY A. KEMP  
MORRIS J. PEACOCK  
MICHAEL K. SPILKER  
MARK E. TICHENOR

During our audit of the funds of Country Cottage, Inc. (the Organization) for the year ended December 31, 2005, we noted circumstances that, if improved, would strengthen the Organization's accounting system and control over its assets. These items are discussed below for your consideration.

### 05-1. Segregation of Duties

#### Finding

The Organization continues to lack a complete segregation of duties; however, controls have been implemented to mitigate this weakness such that it is not deemed to be a material weakness. We choose to continue to mention proper segregation in order to remind management of its importance until such time as the Organization has the need for additional staff and can fully segregate custody of assets and recording functions. For example, the individual preparing the bank reconciliations and those who have access to the accounting system should be segregated from handling cash disbursements. Proper segregation of duties provides important safeguards and controls to ensure the proper accounting, deposit and disposition of the Organization's funds.

#### Recommendation

We recommend that the Organization consider ways that segregation of duties can be achieved within its accounting and administrative functions, especially as the Organization continues to grow and additional staff are considered necessary. We would be happy to assist the Organization in the design and/or implementation of job descriptions and duties to properly achieve this segregation.

### 05-2. Wells Fargo Checking

#### Finding

During our testwork of cash we noted that there were a number of stale checks over six months old on the December 31, 2005 Wells Fargo checking account bank reconciliation.

#### Recommendation

We recommend that all outstanding reconciliation items be regularly reviewed and applicable actions taken as needed to properly reflect current cash balances.

05-3. Employee's File

Finding

During our testwork of internal control we noted that an I-9 and W-4 could not be found in an employee's file.

Recommendation

We recommend updating all employees' files to be current with all applicable employment laws.

05-4. Fixed Assets

Finding

We noted during our testwork of fixed assets that a vehicle was sold, the vehicle loan was paid off, and the additional proceeds were deposited into an employee's bank account in lieu of improvements the employee made to the vehicle. After obtaining and reviewing the documentation supporting the improvements made by the employee, we determined that the employee was not unjustly enriched.

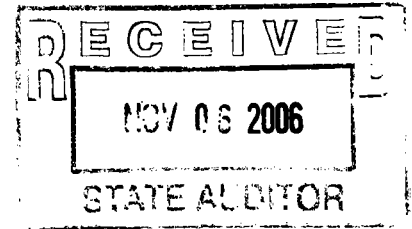
Recommendation

In order to maintain its non-profit status, we recommend no employee gain personal benefit, besides that derived in the normal course of the employer/employee relationship, from the operations of the non-profit organization. The documentation should have already been in the Company files showing the vehicle improvements made by the employee to justify why they received part of the sales proceeds. In addition, such related party transactions should be approved by the Board of Directors. However, the best solution would be for assets not to have any personal component for any employee.

It has been a pleasure to be of service to the Organization during this year's audit. We would like to express our special thanks to each of you who assisted us so efficiently during the audit. We commend the Organization and its management in its efforts to provide accurate accounting data. We invite you to ask questions of us concerning the above comments and also throughout the year as you feel necessary. We look forward to a continued, pleasant, professional relationship.

*Kemp, Burdick, Hinton & Hall, L.C.*  
KEMP, BURDICK, HINTON & HALL, L.C.  
August 7, 2006

**Country Cottage**  
1071 E 100 S B-5  
St. George, UT 84770  
435-673-2211



State of Utah  
Office of The State Auditor  
PO BOX 142310  
Salt Lake City , UT 84114

November 2, 2006

To Whom It May Concern,

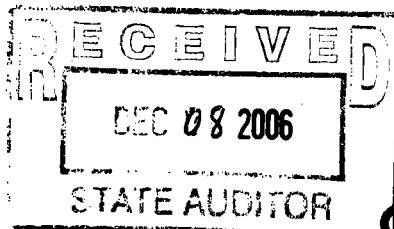
I received your letter dated 10/12/06 today due to your letter being sent to a old mailing address. Please up date your records with our current mailing address. I apologize for any delay regarding our 2005 Financial Report. Our accountant, Kemp, Burdick, reported to us that they mailed a copy of the report in August. I also sent two copies to Jan Short, Contract Administrator. But was unaware a separate copy needed to mailed to another separate office.

I have enclosed a copy of the 2005 financial Report for your review. If you need any further information you may call our Administrative office. Thank you for your time.

Sincerely,

A handwritten signature in cursive script that reads "Suzette Miller".

Suzette Miller  
Administrative Director



## **COUNTRY COTTAGE, INC**

1071 E 100 S  
SUITE B-5  
ST. GEORGE, UT 84790  
PHONE: (435) 673-2211  
FAX: (435) 673-1241

**Kemp Burdick**  
CPA's and Advisors

**Regarding: Findings and Recommendations 2005 tax year**

**December 6, 2006**

- 1. Country Cottage has limited staff due to limited funds. However, the deposits are made by the Administrative Director and the data entire completed by our Director, Lorena Staples. The account requires both signatures on the company checks.**
- 2. There are a number of stale checks because when a youth leaves our program we are required to send a check for that youth's final allowance. These checks are sent to the Case Managers and may sit in the youth's file for month's before the youth is released or given the checks. We will add a void date on the next box of company checks we order to help with the outstanding checks.**
- 3. Country Cottage has only 3 employees, their files do have a I-9 and W4 form. The rest of the files our for foster parents and sub- contractors who provide services. We will continue to insure that employees fill out the required forms and that they are kept on file.**
- 4. This situation was a new one for our Director. Now she understands the rules and process for such matters and will take into advisement the recommendations given.**